

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2007

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Marshalltown Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Bob Christensen	President	2008
Adrienne Macmillen	Vice President	2007
Linda Borsch	Board Member	2008
Kent Loney	Board Member	2007
Pam Swarts	Board Member	2006
Richard Russell	Board Member	2006
Anne Bacon	Board Member	2006
Board of Education (After September 2006 Election)		
Adrienne Macmillen	President	2007
Pam Swarts	Vice President	2009
Kent Loney	Board Member	2007
Linda Borsch	Board Member	2008
Bob Christensen	Board Member	2008
Sally Hansen	Board Member	2009
Richard Hassenius	Board Member	2009
School Officials		
Dr. Harrison E. Cass, Jr.	Superintendent	2007
Kevin Posekany	District Secretary/ Director of Finance	2007
Rex J. Ryden	Attorney	2007
Ahlers & Cooney, P.C.	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Marshalltown Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marshalltown Community School District, Marshalltown, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marshalltown Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 25, 2008 on our consideration of the Marshalltown Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 38 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Marshalltown Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

February 25, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Marshalltown Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$40,325,864 in fiscal 2006 to \$44,342,044 in fiscal 2007, while General Fund expenditures increased from \$39,504,806 in fiscal 2006 to \$41,478,120 in fiscal 2007. The overall result was an increase in the District's General Fund balance from a deficit balance of \$212,196 in fiscal 2006 to a positive balance of \$2,651,728 in fiscal 2007, a 1349.66% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local tax and state and federal grant revenue in fiscal 2007. The increase in expenditures was due primarily to an increase in the instruction functional area. The reason the General Fund balance increased is because the increase in expenditures was less than the increase in revenues for fiscal 2007.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Marshalltown Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Marshalltown Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Marshalltown Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Marshalltown Community School District Annual Financial Report

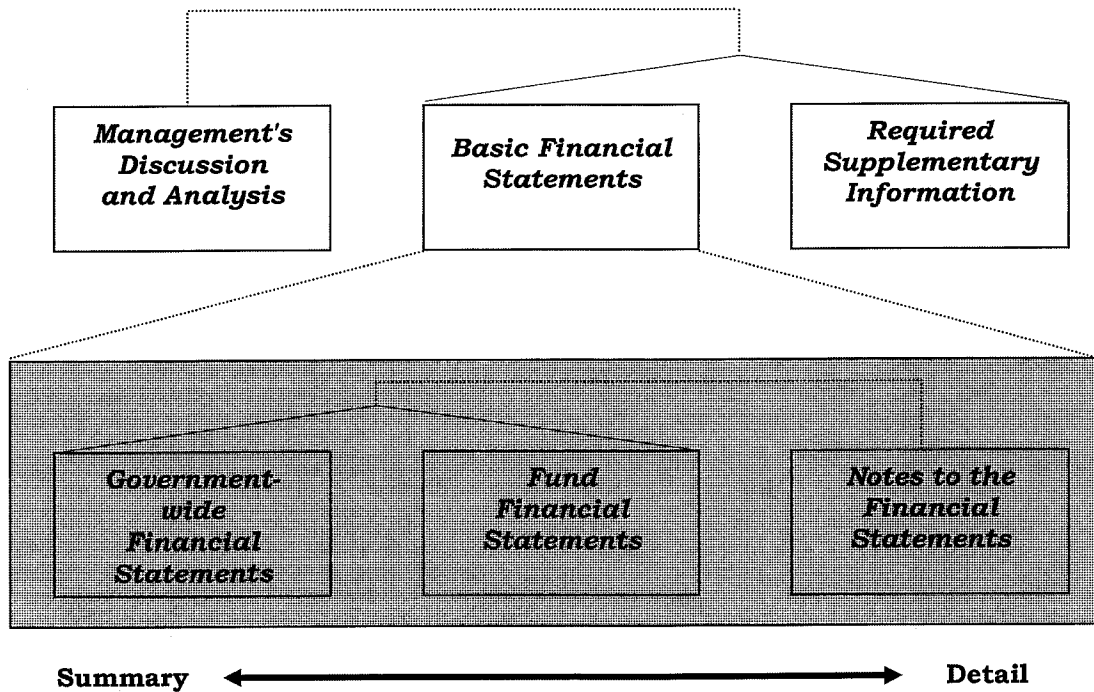


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund, and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Caring Resale Fund. The District's internal service funds (another type of proprietary fund) are the same as its governmental activities but provide more detail and additional information, such as cash flows. The District has one internal service fund: Self-funded Insurance.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private Purpose Trust Fund.

- Private Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 36,677,182	37,481,475	299,125	529,048	36,976,307	38,010,523	-2.72%
Capital assets	37,578,514	31,310,702	326,650	250,359	37,905,164	31,561,061	20.10%
Total assets	74,255,696	68,792,177	625,775	779,407	74,881,471	69,571,584	7.63%
Long-term obligations	29,245,172	30,694,985	0	0	29,245,172	30,694,985	-4.72%
Other liabilities	26,940,226	26,266,403	338	136,363	26,940,564	26,402,766	2.04%
Total liabilities	56,185,398	56,961,388	338	136,363	56,185,736	57,097,751	-1.60%
Net assets:							
Invested in capital assets, net of related debt	12,878,514	15,536,501	326,650	250,359	13,205,164	15,786,860	-16.35%
Restricted	5,777,790	376,623	0	0	5,777,790	376,623	1434.10%
Unrestricted	(586,006)	(4,082,335)	298,787	392,685	(287,219)	(3,689,650)	92.22%
Total net assets	\$ 18,070,298	11,830,789	625,437	643,044	18,695,735	12,473,833	49.88%

The District's combined net assets increased by 49.88%, or \$6,221,902, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$5,401,167, or 1434.10% over the prior year. The increase was primarily a result of reclassifying the Capital Projects fund balance from the invested in capital assets to restricted net assets.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$3,402,431, or 92.22%. This increase in unrestricted net assets was primarily a result of the increase in the fund balances of the General and Special Revenue, Management Levy Fund.

Figure A-4 shows the changes in net assets for the years ended June 30, 2007 and 2006.

Figure A-4

Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 2,163,811	1,916,527	751,489	805,103	2,915,300	2,721,630	7.12%
Operating grants and contributions and restricted interest	6,750,706	5,804,892	1,327,859	1,275,808	8,078,565	7,080,700	14.09%
Capital grants and contributions and restricted interest	1,080,450	0	0	0	1,080,450	0	100.00%
General revenues:							
Property tax	14,501,029	13,352,130	0	0	14,501,029	13,352,130	8.60%
Local option sales and services tax	2,837,367	2,869,228	0	0	2,837,367	2,869,228	-1.11%
Unrestricted state grants	24,142,744	22,187,815	0	0	24,142,744	22,187,815	8.81%
Other	728,661	741,679	7,838	9,037	736,499	750,716	-1.89%
Total revenues	52,204,768	46,872,271	2,087,186	2,089,948	54,291,954	48,962,219	10.89%
Program expenses:							
Governmental activities:							
Instructional	28,657,698	26,710,083	0	0	28,657,698	26,710,083	7.29%
Support services	13,025,366	13,122,683	0	0	13,025,366	13,122,683	-0.74%
Non-instructional programs	95,017	0	2,140,879	2,125,833	2,235,896	2,125,833	5.18%
Other expenses	4,187,178	3,320,866	0	0	4,187,178	3,320,866	26.09%
Total expenses	45,965,259	43,153,632	2,140,879	2,125,833	48,106,138	45,279,465	6.24%
Changes in net assets before capital contributions	6,239,509	3,718,639	(53,693)	(35,885)	6,185,816	3,682,754	-67.97%
Capital contributions	0	0	36,086	0	36,086	0	100.00%
Changes in net assets	6,239,509	3,718,639	(17,607)	(35,885)	6,221,902	3,682,754	68.95%
Net assets beginning of year	11,830,789	8,112,150	643,044	678,929	12,473,833	8,791,079	41.89%
Net assets end of year	\$ 18,070,298	11,830,789	625,437	643,044	18,695,735	12,473,833	49.88%

In fiscal 2007, property tax and unrestricted state grants account for 74% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.6% of the revenue from business type activities.

The District's total revenues were approximately \$54.3 million of which \$52.2 million was for governmental activities and \$2.1 million was for business type activities.

As shown in FigureA-4, the District as a whole experienced a 10.89% increase in revenues and a 6.24% increase in expenses. The increase in expenses was related to increases in the instructional functional area.

Governmental Activities

Revenues for governmental activities were \$52,204,768 and expenses were \$45,965,259.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instruction and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 28,657,698	26,710,083	7.29%	21,652,107	20,718,793	4.50%
Support services	13,025,366	13,122,683	-0.74%	12,828,600	12,961,683	-1.03%
Non-instruction	95,017	0	100.00%	95,017	0	100.00%
Other expenses	4,187,178	3,320,866	26.09%	1,394,568	1,751,737	-20.39%
Totals	<u>\$ 45,965,259</u>	<u>43,153,632</u>	<u>6.52%</u>	<u>35,970,292</u>	<u>35,432,213</u>	<u>1.52%</u>

- The cost financed by users of the District's programs was \$2,163,811.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$7,831,156.
- The net cost of governmental activities was financed with \$14,501,029 in property tax, \$2,837,367 in local option sales and services tax, \$24,142,744 in unrestricted state grants and \$568,493 in net interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$2,087,186 and expenses were \$2,140,879. The District's business-type activities include the School Nutrition and Caring Resale Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Marshalltown Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$7,931,398, compared to last year's ending fund balances of \$9,380,732. However, the primary reason for the decrease was from the construction in the Capital Projects Fund.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in property tax and state and federal grants resulted in an increase in revenues. The increase in revenues was more than the increase in General Fund expenditures ensuring the financial position of the District to increase.

-
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$252,030 to \$377,302, due to an increase in local revenues during the year.
 - The Capital Projects fund balance decreased during the current year, from \$9,641,871 to \$4,654,640. This was a result of the continued expenses associated with construction projects occurring during the year.
 - The Management Levy fund balance increased from a deficit \$774,859 to a deficit \$372,643. This was a result of an increase in local taxes during the year.

Proprietary Fund Highlights

The Enterprise Funds net assets decreased from \$643,044 at June 30, 2006 to \$625,437 at June 30, 2007, representing a decrease of 2.74%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$1,955,901 more than budgeted revenues, a variance of 3.7%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$37.9 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 47.81% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$1,040,771.

The original cost of the District's capital assets was \$54.9 million. Governmental funds account for \$54.1 million with the remainder of \$.8 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. The District's building totaled \$16,938,375 at June 30, 2007, compared to \$13,161,487 reported at June 30, 2006. This increase resulted from projects that were completed during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 637,187	546,927	0	0	637,187	546,927	16.50%
Construction in progress	19,058,237	16,768,063	0	0	19,058,237	16,768,063	13.66%
Buildings	16,938,375	13,161,487	0	0	16,938,375	13,161,487	28.70%
Land improvements	171,953	175,042	0	0	171,953	175,042	-1.76%
Machinery and equipment	772,762	659,183	326,650	250,359	1,099,412	909,542	20.88%
Total	\$ 37,578,514	31,310,702	326,650	250,359	37,905,164	31,561,061	47.81%

Long-Term Debt

At June 30, 2007, the District had long-term debt outstanding of \$29,245,172 in general obligation and other long-term liabilities. This represents a decrease of 4.72% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding general obligation bonds payable of \$24,700,000 at June 30, 2007.

The District also had total outstanding early retirement payable of \$4,398,296 from the Special Revenue, Management Fund at June 30, 2007.

The District had compensated absences payable of \$146,876 from the General Fund at June 30, 2007.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2007	2006	Change
General obligation bonds	\$ 24,700,000	25,600,000	-3.52%
Early retirement	4,398,296	4,999,414	-12.02%
Compensated absences	146,876	95,571	53.68%
Total	\$ 29,245,172	30,694,985	-4.72%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District has experienced stable enrollment for a few years, the District expects enrollment to remain the same.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2004.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kevin Posekany, District Board Secretary/Director of Finance, Marshalltown Community School District, 317 Columbus Dr., Marshalltown, Iowa, 50158.

BASIC FINANCIAL STATEMENTS

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments:			
ISCAP (Note 5)	\$ 4,992,100	0	4,992,100
Other	14,358,633	344,342	14,702,975
Receivables:			
Property tax:			
Delinquent	211,034	0	211,034
Succeeding year	14,736,212	0	14,736,212
Interfund	125,716	(125,716)	0
Accounts	0	17,153	17,153
Accrued ISCAP interest (Note 5)	182,842	0	182,842
Due from other governments	2,032,609	0	2,032,609
Inventories	38,036	63,346	101,382
Capital assets, net of accumulated depreciation (Note 6)	37,578,514	326,650	37,905,164
Total Assets	74,255,696	625,775	74,881,471
Liabilities			
Accounts payable	2,087,755	338	2,088,093
Interest payable	202,301	0	202,301
Salaries and benefits payable	3,829,057	0	3,829,057
Deferred revenue:			
Succeeding year property tax	14,736,212	0	14,736,212
Other	190,324	0	190,324
ISCAP warrants payable (Note 5)	5,000,000	0	5,000,000
ISCAP accrued interest payable (Note 5)	163,638	0	163,638
ISCAP unamortized premiums payable	37,100	0	37,100
Incurred but not reported claims	693,839	0	693,839
Long-term liabilities (Note 7):			
Portion due within one year:			
General obligation bonds	940,000	0	940,000
Early retirement	1,114,466	0	1,114,466
Compensated absences	146,876	0	146,876
Portion due after one year:			
General obligation bonds	23,760,000	0	23,760,000
Early retirement	3,283,830	0	3,283,830
Total Liabilities	56,185,398	338	56,185,736
Net Assets			
Invested in capital assets, net of related debt	12,878,514	326,650	13,205,164
Restricted for:			
Beginning teacher mentoring	8,189	0	8,189
Salary improvement program	1,533	0	1,533
Additional contract day	10,466	0	10,466
Professional development	71,251	0	71,251
Market factor	34,038	0	34,038
Capital projects	4,654,640	0	4,654,640
Debt service	138,327	0	138,327
Physical plant and equipment levy	377,302	0	377,302
Public education and recreation levy	232,900	0	232,900
Other special revenue purposes	249,144	0	249,144
Unrestricted	(586,006)	298,787	(287,219)
Total Net Assets	\$ 18,070,298	625,437	18,695,735

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 16,528,380	503,817	4,661,833	0	(11,362,730)	0	(11,362,730)
Special instruction	5,579,883	282,726	312,210	0	(4,984,947)	0	(4,984,947)
Other instruction	6,549,435	1,245,005	0	0	(5,304,430)	0	(5,304,430)
	28,657,698	2,031,548	4,974,043	0	(21,652,107)	0	(21,652,107)
Support services:							
Student services	1,816,978	0	0	0	(1,816,978)	0	(1,816,978)
Instructional staff services	1,980,411	0	0	0	(1,980,411)	0	(1,980,411)
Administration services	4,449,175	0	0	0	(4,449,175)	0	(4,449,175)
Operation and maintenance of plant services	3,722,181	0	0	0	(3,722,181)	0	(3,722,181)
Transportation services	1,056,621	132,263	64,503	0	(859,855)	0	(859,855)
	13,025,366	132,263	64,503	0	(12,828,600)	0	(12,828,600)
Non-instruction:							
Community service and other enterprise operations	95,017	0	0	0	(95,017)	0	(95,017)
Other expenditures:							
Facilities acquisitions	689,144	0	0	1,080,450	391,306	0	391,306
Long-term debt interest	1,242,306	0	0	0	(1,242,306)	0	(1,242,306)
AEA flowthrough	1,712,160	0	1,712,160	0	0	0	0
Depreciation(unallocated)*	543,568	0	0	0	(543,568)	0	(543,568)
	4,187,178	0	1,712,160	1,080,450	(1,394,568)	0	(1,394,568)
Total governmental activities	45,965,259	2,163,811	6,750,706	1,080,450	(35,970,292)	0	(35,970,292)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	2,123,882	749,456	1,327,859	0	0	(46,567)	(46,567)
Caring resale	16,997	2,033	0	0	0	(14,964)	(14,964)
Total business-type activities	2,140,879	751,489	1,327,859	0	0	(61,531)	(61,531)
Total	\$ 48,106,138	2,915,300	8,078,565	1,080,450	(35,970,292)	(61,531)	(36,031,823)
General Revenues:							
Property tax levied for:							
General purposes					\$ 13,542,508	0	13,542,508
Capital outlay					958,521	0	958,521
Local option sales and services tax					2,837,367	0	2,837,367
Unrestricted state grants					24,142,744	0	24,142,744
Unrestricted investment earnings					568,493	7,838	576,331
Other					160,168	0	160,168
Total general revenues					42,209,801	7,838	42,217,639
Change in net assets before capital contributions					6,239,509	(53,693)	6,185,816
Capital contributions					0	36,086	36,086
Changes in net assets					6,239,509	(17,607)	6,221,902
Net assets beginning of year					11,830,789	643,044	12,473,833
Net assets end of year					\$ 18,070,298	625,437	18,695,735

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

		Special Revenue				
				Physical	Other	
				Plant and	Nonmajor	
		Capital	Management	Equipment	Governmental	
	General	Projects	Levy	Levy	Funds	Total
Assets						
Cash and pooled investments:						
ISCAP(Note 5)	\$ 4,992,100	0	0	0	0	4,992,100
Other	1,790,513	4,934,196	3,057,700	2,337,256	530,668	12,650,333
Receivables:						
Property tax						
Delinquent	171,491	0	25,460	12,519	1,564	211,034
Succeeding year	12,006,408	0	1,750,000	869,910	109,894	14,736,212
Interfund	3,791,125	726,404	0	45,262	1,131,725	5,694,516
Accrued ISCAP interest(Note 5)	182,842	0	0	0	0	182,842
Due from other governments	1,249,957	782,652	0	0	0	2,032,609
Inventories	38,036	0	0	0	0	38,036
Total Assets	\$ 24,222,472	6,443,252	4,833,160	3,264,947	1,773,851	40,537,682
Liabilities and Fund Balances						
Liabilities:						
Excess of warrants issued over						
bank balance	\$ 0	0	0	0	993,398	993,398
Interfund payable	38,762	6,500	3,455,803	2,017,735	50,000	5,568,800
Accounts payable	305,455	1,782,112	0	0	188	2,087,755
Salaries and benefits payable	3,829,057	0	0	0	0	3,829,057
Deferred revenue:						
Succeeding year property tax	12,006,408	0	1,750,000	869,910	109,894	14,736,212
Other	190,324	0	0	0	0	190,324
ISCAP warrants payable(Note 5)	5,000,000	0	0	0	0	5,000,000
ISCAP accrued interest payable(Note 5)	163,638	0	0	0	0	163,638
ISCAP unamortized premiums payable	37,100	0	0	0	0	37,100
Total liabilities	21,570,744	1,788,612	5,205,803	2,887,645	1,153,480	32,606,284
Fund balances:						
Reserved for:						
Debt service	0	0	0	0	138,327	138,327
Beginning teacher mentoring	8,189	0	0	0	0	8,189
Salary improvement program	1,533	0	0	0	0	1,533
Additional contract day	10,466	0	0	0	0	10,466
Professional development	71,251	0	0	0	0	71,251
Market factor	34,038	0	0	0	0	34,038
Unreserved	2,526,251	4,654,640	(372,643)	377,302	482,044	7,667,594
Total fund balances	2,651,728	4,654,640	(372,643)	377,302	620,371	7,931,398
Total Liabilities and Fund Balances	\$ 24,222,472	6,443,252	4,833,160	3,264,947	1,773,851	40,537,682

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances of governmental funds (page 16)	\$ 7,931,398
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	37,578,514
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	2,007,859
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(202,301)
Long-term liabilities, including bonds payable, early retirement and compensated absences, are not due and payable in the current period and, are not reported as liabilities in the governmental funds.	<u>(29,245,172)</u>
Net assets of governmental activities (page 14)	<u><u>\$ 18,070,298</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	Special Revenue					
		Capital	Management	Physical	Other	
	General	Projects	Levy	Plant and	Nonmajor	Total
				Equipment	Governmental	
				Levy	Funds	
REVENUES:						
Local sources:						
Local tax	\$ 11,791,853	2,837,367	1,750,655	850,954	107,567	17,338,396
Tuition	786,543	0	0	0	0	786,543
Other	872,416	190,743	169,656	56,743	816,261	2,105,819
State sources	27,889,144	0	1,535	699	94	27,891,472
Federal sources	3,001,978	1,080,450	0	0	0	4,082,428
Total revenues	44,341,934	4,108,560	1,921,846	908,396	923,922	52,204,658
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	16,356,028	0	0	0	0	16,356,028
Special instruction	5,579,883	0	0	0	0	5,579,883
Other instruction	5,831,478	0	0	0	717,957	6,549,435
	27,767,389	0	0	0	717,957	28,485,346
Support services:						
Student services	1,846,262	0	0	0	0	1,846,262
Instructional staff services	2,090,563	120,980	0	61,406	0	2,272,949
Administration services	3,200,384	0	1,411,068	0	0	4,611,452
Operation and maintenance						
of plant services	3,642,037	0	108,562	0	0	3,750,599
Transportation services	1,183,788	0	0	163,150	0	1,346,938
	11,963,034	120,980	1,519,630	224,556	0	13,828,200
Non-instructional programs:						
Community service and other						
enterprise operations	31,537	0	0	0	63,480	95,017
Other expenditures:						
Facilities acquisitions	0	6,828,377	0	558,568	0	7,386,945
Long-term debt:						
Principal	0	0	0	0	900,000	900,000
Interest	0	0	0	0	1,246,434	1,246,434
AEA flowthrough	1,712,160	0	0	0	0	1,712,160
	1,712,160	6,828,377	0	558,568	2,146,434	11,245,539
Total expenditures	41,474,120	6,949,357	1,519,630	783,124	2,927,871	53,654,102
Excess(deficiency) of revenues						
over(under) expenditures	2,867,814	(2,840,797)	402,216	125,272	(2,003,949)	(1,449,444)
Other financing sources(uses):						
Transfers in	0	0	0	0	2,150,434	2,150,434
Transfers out	(4,000)	(2,146,434)	0	0	0	(2,150,434)
Sale of equipment	110	0	0	0	0	110
Total other financing sources(uses)	(3,890)	(2,146,434)	0	0	2,150,434	110
Net change in fund balances	2,863,924	(4,987,231)	402,216	125,272	146,485	(1,449,334)
Fund balance beginning of year	(212,196)	9,641,871	(774,859)	252,030	473,886	9,380,732
Fund balance end of year	\$ 2,651,728	4,654,640	(372,643)	377,302	620,371	7,931,398

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 18) \$ (1,449,334)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 7,254,838	
Depreciation expense	<u>(987,026)</u>	6,267,812

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (32,910)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issued, as follows: 900,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 4,128

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	\$ 601,118	
Compensated absences	<u>(51,305)</u>	549,813

Changes in net assets of governmental activities (page 15) \$ 6,239,509

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	Business-Type Activities: Enterprise Fund			Governmental Activities: Internal Service Fund
	School Nutrition	Caring Resale	Total	
Assets				
Cash and cash equivalents	\$ 316,397	27,945	344,342	2,701,698
Accounts receivable	17,153	0	17,153	0
Inventories	63,346	0	63,346	0
Capital assets, net of accumulated depreciation(Note 6)	326,650	0	326,650	0
Total Assets	723,546	27,945	751,491	2,701,698
Liabilities				
Interfund payable	125,716	0	125,716	0
Accounts payable	338	0	338	0
Incurred but not reported claims	0	0	0	693,839
Total Liabilities	126,054	0	126,054	693,839
Net Assets				
Invested in capital assets	326,650	0	326,650	0
Unrestricted	270,842	27,945	298,787	2,007,859
Total Net Assets	\$ 597,492	27,945	625,437	2,007,859

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	Business-Type Activities: Enterprise Fund			Governmental Activities: Internal Service Fund
	School Nutrition	Caring Resale	Total	
OPERATING REVENUE:				
Local sources:				
Charges for services	\$ 749,456	2,033	751,489	5,514,508
TOTAL OPERATING REVENUES	749,456	2,033	751,489	5,514,508
OPERATING EXPENSES:				
Salaries	845,564	0	845,564	0
Benefits	154,931	0	154,931	5,547,418
Services	79,989	0	79,989	0
Supplies	960,345	16,997	977,342	0
Depreciation	53,745	0	53,745	0
TOTAL OPERATING EXPENSES	2,094,574	16,997	2,111,571	5,547,418
OPERATING LOSS	(1,345,118)	(14,964)	(1,360,082)	(32,910)
NON-OPERATING REVENUES:				
Interest income	6,446	1,392	7,838	0
State sources	23,948	0	23,948	0
Federal sources	1,303,911	0	1,303,911	0
TOTAL NON-OPERATING REVENUES	1,334,305	1,392	1,335,697	0
Changes in net assets before other financing sources(uses)	(10,813)	(13,572)	(24,385)	(32,910)
OTHER FINANCING SOURCES(USES):				
Capital contributions	36,086	0	36,086	0
Loss on disposal of capital assets	(29,308)	0	(29,308)	0
TOTAL OTHER FINANCING SOURCES(USES):	6,778	0	6,778	0
Net loss	(4,035)	(13,572)	(17,607)	(32,910)
Net assets at beginning of year	601,527	41,517	643,044	2,040,769
Net assets end of year	\$ 597,492	27,945	625,437	2,007,859

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	Business-Type Activities: Enterprise Fund			Governmental Activities: Internal Service Fund
	School Nutrition	Caring Resale	Total	
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 739,235	0	739,235	0
Cash received from miscellaneous operating activities	0	2,033	2,033	6,072,354
Cash payments to employees for services	(1,035,787)	0	(1,035,787)	(5,538,014)
Cash payments to suppliers for goods or services	(1,038,173)	(16,997)	(1,055,170)	0
Net cash provided by(used in) operating activities	(1,334,725)	(14,964)	(1,349,689)	534,340
Cash flows from non-capital financing activities:				
Repayment of interfund loan from the General Fund	36,523	0	36,523	0
State grants received	23,948	0	23,948	0
Federal grants received	1,260,754	0	1,260,754	0
Net cash provided by non-capital financing activities	1,321,225	0	1,321,225	0
Cash flows from investing activities:				
Interest on investments	6,446	1,392	7,838	0
Cash flows from capital financing activities:				
Purchase of assets	(123,258)	0	(123,258)	0
Net increase(decrease) in cash and cash equivalents	(130,312)	(13,572)	(143,884)	534,340
Cash and cash equivalents at beginning of year	446,709	41,517	488,226	2,167,358
Cash and cash equivalents at end of year	\$ 316,397	27,945	344,342	2,701,698
Reconciliation of operating loss to net cash provided by(used in) operating activities:				
Operating loss	\$ (1,345,118)	(14,964)	(1,360,082)	(32,910)
Adjustments to reconcile operating loss to net cash provided by(used in) operating activities:				
Commodities consumed	43,157	0	43,157	0
Depreciation	53,745	0	53,745	0
Increase in inventories	(29,456)	0	(29,456)	0
Decrease(Increase) in accounts receivable	(10,221)	0	(10,221)	557,846
Decrease in accounts payable	(11,540)	0	(11,540)	0
Decrease in salary and benefits payable	(35,292)	0	(35,292)	0
Increase in incurred but not reported	0	0	0	9,404
Net cash provided by(used in) operating activities	\$ (1,334,725)	(14,964)	(1,349,689)	534,340
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and pooled investments	\$ 316,397	27,945	344,342	2,701,698

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$43,157.

During the year ended June 30, 2007, the Nutrition Fund received capital contributions of \$36,086 from the PPEL Fund.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2007

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Assets	
Cash and pooled investments	\$ 46,038
Liabilities	<u>0</u>
Net Assets	
Reserved for scholarships	<u>\$ 46,038</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2007

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Additions:	
Local sources:	
Interest on investments	\$ 2,847
Total additions	<u>2,847</u>
Deletions:	
Scholarships awarded	<u>750</u>
Total deletions	<u>750</u>
Change in net assets	2,097
Net assets beginning of year	<u>43,941</u>
Net assets end of year	<u>\$ 46,038</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Marshalltown Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Marshalltown, Iowa, and the predominate agricultural territory in Marshall County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Marshalltown Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Marshalltown Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marshall County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Special Revenue - Management Fund is utilized to account for the payment of property insurance and early retirement benefits.

The Special Revenue - Physical Plant and Equipment Levy Fund is utilized to account for major equipment purchases and capital improvements.

The District reports the following proprietary funds:

The District's proprietary funds are the School Nutrition Fund and the Caring Resale Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the

District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following

fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 541,505

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 125,716
General	Management	3,455,803
General	Activity	50,000
Capital Projects	PPEL	726,404
PPEL	Capital Projects	6,500
PPEL	General	38,762
General	PPEL	159,606
Debt Service	PPEL	1,131,725
Total		\$ 5,694,516

(4) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 2,146,434
Activity	General	<u>4,000</u>
Total		<u>\$ 2,150,434</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	\$ 0	181,350	0	162,365
2007-08A	6/28/07	6/27/08	4,992,100	1,492	5,000,000	1,273
Total			<u>\$ 4,992,100</u>	<u>182,842</u>	<u>5,000,000</u>	<u>163,638</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07A	\$ 0	5,295,135	5,295,135	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2007-08A	4.500%	5.455%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 546,927	90,260	0	637,187
Construction in progress	16,768,063	6,633,831	4,343,657	19,058,237
Total capital assets not being depreciated	17,314,990	6,724,091	4,343,657	19,695,424
Capital assets being depreciated:				
Buildings	24,017,525	4,310,921	0	28,328,446
Land improvements	322,688	6,446	0	329,134
Machinery and equipment	5,521,027	557,037	277,327	5,800,737
Total capital assets being depreciated	29,861,240	4,874,404	277,327	34,458,317
Less accumulated depreciation for:				
Buildings	10,856,038	534,033	0	11,390,071
Land improvements	147,646	9,535	0	157,181
Machinery and equipment	4,861,844	443,458	277,327	5,027,975
Total accumulated depreciation	15,865,528	987,026	277,327	16,575,227
Total capital assets being depreciated, net	13,995,712	3,887,378	0	17,883,090
Governmental activities capital assets, net	\$ 31,310,702	10,611,469	4,343,657	37,578,514

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 641,638	159,344	35,843	765,139
Less accumulated depreciation	391,279	53,745	6,535	438,489
Business-type activities capital assets, net	<u>\$ 250,359</u>	<u>105,599</u>	<u>29,308</u>	<u>326,650</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 298,093
Support services:	
Instructional staff services	0
Administration services	450
Operation and maintenance of plant services	18,385
Transportation	<u>126,530</u>
	443,458
Unallocated depreciation	<u>543,568</u>
Total governmental activities depreciation expense	<u>\$ 987,026</u>
Business-type activities:	
Food services	<u>\$ 53,745</u>

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 25,600,000	0	900,000	24,700,000	940,000
Early retirement	4,999,414	634,740	1,235,858	4,398,296	1,114,466
Compensated absences	95,571	146,876	95,571	146,876	146,876
Total	<u>\$ 30,694,985</u>	<u>781,616</u>	<u>2,231,429</u>	<u>29,245,172</u>	<u>2,201,342</u>

General Obligation

Details of the District's June 30, 2007 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of May 1, 2002			Bond Issue of July 1, 2004		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2008	4.20 % \$	200,000	17,000	4.00 % \$	740,000	1,156,350
2009	4.30	200,000	8,600	4.00	775,000	1,126,750
2010		-	-	5.00	1,015,000	1,095,750
2011		-	-	5.00	1,065,000	1,045,000
2012		-	-	5.00	1,120,000	991,750
2013-2017		-	-	5.00	6,500,000	4,060,750
2018-2022		-	-	5.00	8,280,000	2,266,000
2023-2024		-	-	5.00	3,935,000	297,500
Total		\$ 400,000	25,600		\$ 23,430,000	12,039,850

Bond Issue of June 1, 2006			Total		
Interest Rates	Principal	Interest	Principal	Interest	Total
4.65 % \$	-	40,455	\$ 940,000	1,213,805	2,153,805
4.65	-	40,455	975,000	1,175,805	2,150,805
4.65	-	40,455	1,015,000	1,136,205	2,151,205
4.65	-	40,455	1,065,000	1,085,455	2,150,455
4.65	-	40,455	1,120,000	1,032,205	2,152,205
4.65	125,000	202,275	6,625,000	4,263,025	10,888,025
4.65	545,000	119,272	8,825,000	2,385,272	11,210,272
4.65	200,000	13,950	4,135,000	311,450	4,446,450
	\$ 870,000	537,772	\$ 24,700,000	12,603,222	37,303,222

Early Retirement

The District has in place a retirement incentive plan, that provides a monthly stipend based in a percentage of the employee's last full time contract. This stipend continues until the retiree reaches the age of 65. Early retirement benefits paid during the year ended June 30, 2007, totaled \$1,235,858. A liability has been recorded in the Government-wide financial statements representing the District's commitment to fund non-current early retirement.

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by

State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$1,443,852, \$1,380,152 and \$1,353,188 respectively, equal to the required contributions for each year.

(9) Risk Management

The District has a self-funded health insurance plan. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess of \$50,000 in insured claims for any one covered individual. Settle claims have not exceeded the commercial coverage in any of the past three years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. That balance was \$2,007,859 at June 30, 2007. The incurred but not recorded and unpaid claims liability of \$693,839 reported in the plan at June 30, 2007 based on the requirements of GASB Statement Number 10, is set up as a liability on the statement of net assets.

In addition, the District is exposed to various risks to loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$1,712,160 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Deficit Fund Balance

The District has a deficit undesignated fund balance in the Special Revenue, Management Fund of \$372,643.

(12) Construction Commitment

The District has entered into various contracts totaling \$19,362,517 for the Lenihan and Miller Middle School Projects. As of June 30, 2007, costs of \$19,058,237 had been incurred against the contracts. The balance of \$304,280 remaining at June 30, 2007 will be paid as work on the projects progresses.

REQUIRED SUPPLEMENTARY INFORMATION

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Funds				Actual
	Actual	Actual	Actual	Original	Final	Variance
Revenues:						
Local sources	\$ 20,230,758	759,327	20,990,085	20,789,357	20,789,357	200,728
State sources	27,891,472	23,948	27,915,420	27,169,106	27,169,106	746,314
Federal sources	4,082,428	1,303,911	5,386,339	4,377,480	4,377,480	1,008,859
Total revenues	52,204,658	2,087,186	54,291,844	52,335,943	52,335,943	1,955,901
Expenditures:						
Instruction	28,485,346	0	28,485,346	29,117,830	29,117,830	632,484
Support services	13,828,200	0	13,828,200	14,259,582	14,259,582	431,382
Non-instructional programs	95,017	2,111,571	2,206,588	2,547,830	2,547,830	341,242
Other expenditures	11,245,539	0	11,245,539	15,910,905	15,910,905	4,665,366
Total expenditures	53,654,102	2,111,571	55,765,673	61,836,147	61,836,147	6,070,474
Excess(deficiency) of revenues over(under) expenditures	(1,449,444)	(24,385)	(1,473,829)	(9,500,204)	(9,500,204)	8,026,375
Other financing sources, net	110	6,778	6,888	0	0	6,888
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(1,449,334)	(17,607)	(1,466,941)	(9,500,204)	(9,500,204)	8,033,263
Balance beginning of year	9,380,732	643,044	10,023,776	12,564,691	12,564,691	(2,540,915)
Balance end of year	\$ 7,931,398	625,437	8,556,835	3,064,487	3,064,487	5,492,348

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Public Student Activity	Education and Recreation Levy	Expendable Trust	Total Special Revenue	Debt Service	
Assets						
Cash and pooled investments	\$ 261,693	231,336	37,639	530,668	0	530,668
Receivables:						
Property tax:						
Current year delinquent	0	1,564	0	1,564	0	1,564
Succeeding year	0	109,894	0	109,894	0	109,894
Interfund	0	0	0	0	1,131,725	1,131,725
Total Assets	\$ 261,693	342,794	37,639	642,126	1,131,725	1,773,851
Liabilities and Fund Balances						
Liabilities:						
Excess of warrants issued over bank balance	\$ 0	0	0	0	993,398	993,398
Interfund payable	50,000	0	0	50,000	0	50,000
Accounts payable	188	0	0	188	0	188
Deferred revenue:						
Succeeding year property tax	0	109,894	0	109,894	0	109,894
	50,188	109,894	0	160,082	993,398	1,153,480
Fund balances:						
Reserved for debt service	0	0	0	0	138,327	138,327
Unreserved	211,505	232,900	37,639	482,044	0	482,044
Total fund balances	211,505	232,900	37,639	482,044	138,327	620,371
Total Liabilities and Fund Balances	\$ 261,693	342,794	37,639	642,126	1,131,725	1,773,851

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds					Total
	Public					Other
	Education and		Total			Nonmajor
	Student	Recreation	Expendable	Special	Debt	Governmental
	Activity	Levy	Trust	Revenue	Service	Funds
REVENUES:						
Local sources:						
Local tax	\$ 0	107,567	0	107,567	0	107,567
Other	784,185	6,129	25,947	816,261	0	816,261
State sources	0	94	0	94	0	94
TOTAL REVENUES	784,185	113,790	25,947	923,922	0	923,922
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	717,457	0	500	717,957	0	717,957
Non-instructional:						
Community service and other						
enterprise operations	0	63,480	0	63,480	0	63,480
Other expenditures:						
Long-term debt:						
Principal	0	0	0	0	900,000	900,000
Interest and other fiscal charges	0	0	0	0	1,246,434	1,246,434
TOTAL EXPENDITURES	717,457	63,480	500	781,437	2,146,434	2,927,871
Excess(deficiency) of revenue over						
(under) expenditures	66,728	50,310	25,447	142,485	(2,146,434)	(2,003,949)
Other financing sources:						
Transfers in	4,000	0	0	4,000	2,146,434	2,150,434
Excess of revenue and other						
financing sources over expenditures	70,728	50,310	25,447	146,485	0	146,485
Fund balance beginning of year	140,777	182,590	12,192	335,559	138,327	473,886
Fund balance end of year	\$ 211,505	232,900	37,639	482,044	138,327	620,371

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Senior High School	\$ 82,957	661,816	575,395	169,378
Miller Middle School	4,994	20,655	95,463	(69,814)
Anson Elementary School	3,269	3	0	3,272
Fisher Elementary School	5,777	8,077	7,932	5,922
Franklin Elementary School	4,658	2,224	4,226	2,656
Hoglan Elementary School	587	16,492	7,239	9,840
Rogers Elementary School	879	98	843	134
Woodbury Elementary School	37,656	3,869	5,203	36,322
Lenihan School	0	74,951	21,156	53,795
Total	\$ 140,777	788,185	717,457	211,505

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND, PRIVATE PURPOSE TRUST ACCOUNTS
 JUNE 30, 2007

	Kiser Memorial	Supinger Memorial	White Memorial	Total
Assets				
Cash and pooled investments	\$ 5,218	31,543	9,277	46,038
Liabilities				
Liabilities:	0	0	0	0
Net Assets				
Reserved for scholarships	\$ 5,218	31,543	9,277	46,038

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND, PRIVATE PURPOSE TRUST ACCOUNTS
 YEAR ENDED JUNE 30, 2007

	Kiser Memorial	Supinger Memorial	White Memorial	Total
Additions:				
Local sources:				
Interest on investments	\$ 329	1,939	579	2,847
	329	1,939	579	2,847
Deletions				
Scholarships awarded	0	250	500	750
	0	250	500	750
Changes in net assets	329	1,689	79	2,097
Net assets beginning of year	4,889	29,854	9,198	43,941
Net assets end of year	\$ 5,218	31,543	9,277	46,038

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 17,338,396	16,221,358	14,959,584	11,593,268
Tuition	786,543	763,379	658,440	610,311
Other	2,105,819	1,982,435	1,956,450	1,529,229
State sources	27,891,472	25,374,838	24,175,261	22,767,651
Federal sources	4,082,428	2,530,261	2,986,008	4,026,455
Total	<u>\$ 52,204,658</u>	<u>46,872,271</u>	<u>44,735,743</u>	<u>40,526,914</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 16,356,028	15,410,271	16,448,312	15,701,301
Special instruction	5,579,883	6,481,420	5,691,633	7,219,374
Other instruction	6,549,435	5,635,206	4,333,260	2,874,639
Support services:				
Student services	1,846,262	1,690,065	2,425,533	2,422,512
Instructional staff services	2,272,949	2,119,595	1,603,247	1,645,564
Administration services	4,611,452	4,555,965	3,533,077	3,911,954
Operation and maintenance of plant services	3,750,599	3,352,581	2,837,917	2,934,819
Transportation services	1,346,938	1,085,648	1,044,119	1,042,819
Central support services	0	0	507,834	507,200
Non-instructional programs:				
Community service and other enterprise operations	95,017	100,334	133,200	87,783
Other expenditures:				
Facilities acquisitions	7,386,945	14,855,639	5,721,204	2,561,731
Long Term Debt:				
Principal	900,000	1,557,000	735,000	700,000
Interest and other fiscal charges	1,246,434	1,250,195	1,054,408	102,334
AEA flow-through	1,712,160	1,569,129	1,493,820	1,471,610
Total	<u>\$ 53,654,102</u>	<u>59,663,048</u>	<u>47,562,564</u>	<u>43,183,640</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - NATIONAL PROGRAM	84.184	FY 07	\$ 50,905
FUND FOR THE IMPROVEMENT OF EDUCATION (SMALLER LEARNING COMMUNITIES PROGRAM)	84.215	FY 07	428,094
FUND FOR THE IMPROVEMENT OF EDUCATION(CAROL M. WHITE PHYSICAL EDUCATION PROGRAM)	84.215	FY 07	136,548
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION(non-cash)	10.550	FY 07	43,157
FRUIT AND VEGETABLE PILOT PROGRAM	10.582	FY 07	233
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	254,587
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	976,387
SPECIAL MILK	10.556	FY 07	1,624
SUMMER FOOD SERVICE PROGRAM	10.559	FY 07	27,923
			1,260,521
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	4104-SI-06	17,175
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	4104-SI-07	70,000
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	4105-G	575,310
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	4105-M	96,790
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	4105-GC	167,410
			926,685

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

Schedule 7

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED)			
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 05	4,392
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 06	20,012
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 07	10,011
			<u>34,415</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 06	34,180
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 07	31,901
			<u>66,081</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 06	123,705
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 07	29,687
			<u>153,392</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 06	1,184
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 07	34,356
			<u>35,540</u>
BILINGUAL EDUCATION - COMPREHENSIVE SCHOOL GRANTS	84.290	FY 07	<u>402,965</u>
READING FIRST	84.357	FY 07	<u>112,500</u>
FUND FOR THE IMPROVEMENT OF EDUCATION (IOWA DEMONSTRATION GRANT)	84.215	FY 05	500,000
FUND FOR THE IMPROVEMENT OF EDUCATION (IOWA DEMONSTRATION GRANT)	84.215	FY 06	580,450
			<u>1,080,450</u>
SERVICES FOR CHILDREN WITH DEAF - BLINDNESS	84.025	FY 07	<u>200</u>
SPECIAL EDUCATION - STATE PERSONNEL DEVELOPMENT	84.323	FY 07	<u>4,199</u>
TITLE III - ENGLISH LANGUAGE ACQUISITION	84.365	FY 07	<u>10,484</u>

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED)			
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC			
GRANTS TO STATES	84.048	FY 07	<u>71,566</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 07	<u>312,210</u>
ENGLISH LANGUAGE ACQUISITION GRANT	84.365	FY 07	<u>109,814</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
CENTERS FOR DISEASE CONTROL AND PREVENTION			
INVESTIGATIONS AND TECHNICAL ASSISTANCE	93.283	FY 07	<u>500</u>
MEDICAL ASSISTANCE PROGRAM	93.778	FY 07	<u>2,710</u>
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
AEROSPACE EDUCATION SERVICES PROGRAM	43.001	FY 06	7,235
AEROSPACE EDUCATION SERVICES PROGRAM	43.001	FY 07	<u>6,916</u>
			<u>14,151</u>
TOTAL			<u>\$ 5,257,320</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Marshalltown Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Marshalltown Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Marshalltown Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 25, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marshalltown Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Marshalltown Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Marshalltown Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Marshalltown Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Marshalltown Community School District's financial statements that is more than inconsequential will not be prevented or detected by Marshalltown Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Marshalltown Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marshalltown Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Marshalltown Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Marshalltown Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Marshalltown Community School District and other parties to whom Marshalltown Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Marshalltown Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

February 25, 2008

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of
Marshalltown Community School District

Compliance

We have audited the compliance of Marshalltown Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Marshalltown Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Marshalltown Community School District's management. Our responsibility is to express an opinion on Marshalltown Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marshalltown Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Marshalltown Community School District's compliance with those requirements.

In our opinion, Marshalltown Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Marshalltown Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Marshalltown Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Marshalltown Community School District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a material weakness.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

Marshalltown Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Marshalltown Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Marshalltown Community School District and other parties to whom Marshalltown Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

February 25, 2008

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - CFDA Number 84.010 - Title I grants to Local Educational agencies
 - CFDA Number 84.215 - Fund for the Improvement of Education(Demonstration Grant)
 - CFDA Number 84.215 - Fund for the Improvement of Education(Carol M. White Physical Education Program)
 - CFDA Number 84.215 - Fund for the Improvement of Education (Smaller Learning Communities Program)
 - CFDA Number 84.290 - Bilingual Education - Comprehensive School Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Marshalltown Community School District did not qualify as a low-risk auditee.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- II-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted in the Student Activity and the School Nutrition Funds, that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- II-B-07 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be reissued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - The District has submitted the outstanding checks to the Treasurer of Iowa as unclaimed property.

Conclusion - Response accepted.

- II-C-07 Check Signatures - We noted during our audit, instances of unauthorized signatures on the District's checks. Chapter 291.1 of the Code of Iowa requires the Board President and Board Secretary to sign all checks. Also pursuant to this section, the Board President may designate an individual to sign warrants on his/her behalf. However, the Board Secretary may not designate an individual to sign in their absence.

Recommendation - The District should review their procedures to ensure that the proper signatures are on all checks before sending them out, in order to be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa.

Response - The District will get all accounts on line for check processing.

Conclusion - Response accepted.

- II-D-07 Student Activity Fund - During our audit issues arose about the properness of certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to

use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended. More specifically, there currently is a library account that needs to be closed and transferred to the General Fund where the expenditures can legally occur.

Response - The District will review classification of activity funds and make transfers as necessary.

Conclusion - Response accepted.

II-E-07 Sponsor Procedures - During our audit, concerns developed about sponsor procedures. Currently, some sponsors are not turning in supporting documentation for money collected from individuals, fundraising events and other revenue fees. It was also apparent that the sponsors were not turning in collected receipts to the administration office for deposit in a timely manner. It appeared that some sponsors maintained the cash collection in their office/classroom until they had time to turn the funds into the office or until all the funds were collected. We noted that once collected at the office, these were handled in a comparable manner as receipts directly delivered to the office, where receipts are given and deposited. The copies of the receipts issued at the buildings are provided to the central office for posting and reconciling the bank statement. There does not appear to be controls in place to document monies collected and turned in from sponsors to be reconciled to the actual deposit.

The breakdown of control procedures for the receipting process becomes apparent as the sponsor maintains the collected revenue. The maintenance of the undeposited funds in the office/classroom provides a risk of loss due to possible theft, improper use or loss, as well as lack of reporting of the funds. The District is required to maintain records for the student activity fund.

Recommendation - The district actually maintains multiple layers of receipting from, sponsors, to the building office, to the central office. When sponsors or fundraising chairpersons submit money to the office for previously collected receipts, they should provide documentation of their receipts. This documentation should be used when reconciling deposits to receipts. The district should take necessary steps to require all sponsors to turn in collected money on a daily basis with detailed receipts or another form of detailed documentation. This detailed documentation should at a minimum include the individual that the sponsor received the money from, the purpose, the fund/organization/club that needs to be credited, the date and amount.

Response - The District will review accounting procedures with building principals for proper account of revenues.

Conclusion - Response accepted.

- II-F-07 State Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - The District is making changes in grant reporting to help with posting of expenditures.

Conclusion - Response accepted.

- II-G-07 Supporting Documents for Payments with Credit Cards - Payments made with credit cards do not always have detailed supporting documentation.

Recommendation - The District has a policy in place for credit card usage, which states that the users of the credit cards need to provide detailed receipts for purchases made. The District should review policies in place with personnel using the district credit cards to ensure the proper detailed documentation will be available when paying credit card billings.

Response - The District is enforcing policy to require appropriate accounting of credit card purchases.

Conclusion - Response accepted.

- II-H-07 PPEL Expenditures - We noted that the District is currently making purchases from Special Revenue, Physical Plant and Equipment Levy(PPEL) Fund which do not appear to be in compliance with Chapter 298.3 of the Code of Iowa. The District made purchases totaling \$48,940 for desks, chairs and filing cabinets, which were below the single unit price of \$500.

Recommendation - The District should review their procedures to ensure that purchases made from these funds are in compliance with Chapter 298.3 of the Code of Iowa. A corrective transfer should be made from the General Fund to cover these expenditures.

Response - The District will review future purchases to comply with Chapter 298.3.

Conclusion - Response accepted.

- II-I-07 Reliable Financial Statements - Iowa School Districts are required to record the financial records on a GAAP Basis of Accounting. The financial records are normally converted at year end, after a year of cash based records. The recognition of receivables, payables, inventory, long-term debt recognition and depreciation of capital assets are all pieces which the accounting personnel is expected to be completing. The individuals performing the accounting function needs to be well trained in all areas to be effective in completing the Certified Annual Report. The Iowa Association of School Business Officials provides training to its members as does the Department of Education and Software Unlimited. This training helps in providing instruction as well as promotes networking of other accounting personnel.

The District records required numerous end-of-year adjustments. There were additional accounts receivable and accounts payable that had to be recorded on the books for some of the funds. There were also no adjustments made for the changes in inventories, capital assets or long-term debt.

Additional training should be considered with regard to the individuals who are in charge of the federal awards. These individuals need to communicate continuously with the accounting staff on which federal grants have been expended to ensure that the general ledger is accurate with the reports submitted to the state and federal government.

Recommendation - The maintenance of reliable accounting records has and continues to be important in every district. The necessity of the numerous adjustments for the financial statements may indicate that additional training is necessary for the accounting personnel. The District should consider sending their accounting staff to end-of-year training in an effort to provide more reliable financial statements.

Response - The District will continue to training for year end accounting procedures and has made changes to improve accounting for grants.

Conclusion - Response accepted.

- II-J-07 Interfund Loans - There are numerous interfund loans between various funds, see note 3 for a complete listing.

Recommendation - Funds should be transferred between accounts to resolve these loans.

Response - The District will work with auditors to clean up fund transfers currently on the books.

Conclusion - Response acknowledged. The District needs to physically do the transfers of the balances at the bank for amounts in note 3.

- II-K-07 Bank Accounts - We noted during our audit that bank statements are being mailed to offices other than the central office. The District's investment policy 704.3 states that the Treasurer is authorized to make investments. Chapter 291.6 requires the Board Secretary to "keep an accurate, separate account of each fund with the treasurer." The bank statements help provide the record keeping that is necessary and needs to be available to the Board Secretary.

Recommendation - All of the bank statements should be mailed directly to the central office so the central office accounting staff may perform a bank reconciliation on a monthly basis. The bank reconciliation when performed timely, and reconciling items adjusted would provide support for the cash position. This would allow the user of the monthly financial statements a higher confidence in the amount of cash reflected on the balance sheet. All bank accounts that use the District's federal identification number should be received by the central office accounting staff. The board president and business manager should contact the banks within Marshalltown to ensure that all bank accounts are being sent to the central office.

Response - The District continues to work with buildings and banks to close or change where bank accounts are being held or maintained within the District.

Conclusion - Response accepted.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number 84.010: Title I grants to Local Educational agencies

CFDA Number 84.215: Fund for the Improvement of Education(Demonstration Grant)

CFDA Number 84.215: Fund for the Improvement of Education(Carol M. White Physical
Education Program)

CFDA Number 84.215: Fund for the Improvement of Education (Smaller Learning Communities
Program)

CFDA Number 84.290: Bilingual Education - Comprehensive School Grants

Federal Award Year: 2007

U.S. Department of Education

Passed through the Iowa Department of Education

III-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted in the School Nutrition Fund, that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

III-B-07 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - The District is placing more time towards maintenance and review of grant expenditures.

Conclusion - Response accepted.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-07 Certified Budget - District expenditures for the year ended June 30, 2007, did not exceed the amount budgeted.

IV-B-07 Questionable Disbursements - We noted during our audit that there was an invoice paid from the Student Activity Fund for gift certificates from American Legion Golf Course for \$2,252. The invoice fails to document the public purpose served.

Recommendation - The District should review these types of expenditures and document the public purpose served. The District may consider adopting a policy directed to requirements in meeting public purpose criteria.

Response - The District is attempting to require more detailed receipts before payments are made.

Conclusion - Response accepted.

IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-07 Business Transactions - Business transactions between the District and District officials are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dave Adland, Bus Driver Owns Adland Engraving Co.	Supplies	\$22,077
Carl Webb, Teacher Owner of Webb Picture Framing	Supplies	\$137

According to Attorney General's Opinion dated July 2, 1990 the above transactions with the bus driver and the teacher do not appear to represent a conflict of interest.

IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - The District sends the minutes to the Times Republic in an appropriate timeframe and will ask the Times Republic to try and get them published within two weeks.

Conclusion - Response accepted.

IV-G-07 Certified Enrollment - We noted that the number of basic resident student reported to the Iowa Department of Education on line 1 of the Certified Enrollment Certification Form for October 2006 was overstated by 0.9 students. Line 12 was understated by 0.36 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management .

Conclusion - Response accepted.

IV-H-07 Deposits and Investments - We noted instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. The District currently has investments in mutual funds.

Recommendation - The District should close the investment account which includes the mutual funds and reinvest in an allowable investment. The District should also provide a copy of its investment policy to each financial institute it uses and should require compliance with the policy as well as Code of Iowa Chapters 12B and 12C.

Response - The District will close the mutual fund.

Conclusion - Response accepted.

IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-J-07 Financial Condition - During our audit we noted that the District had a deficit fund balances in the Special Revenue, Management Fund of \$372,643.

We also noted that within the Student Activity Fund that the Miller Middle School has a deficit balance. It was also noted that there are numerous individual accounts with a deficit balance within each school.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit.

Response - The District and Board are working towards a positive balance in the management fund and is working with Miller MS to correct its deficit balance.

Conclusion - Response accepted.